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August 16, 2004

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AUG 16 2004

PUBLIC SERVICE
COMMISSION

HAND DELIVERY

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: *Application of Louisville Gas and Electric Company for an Adjustment of its Gas and Electric Rates, Terms and Conditions*
Case No. 2003-00433

Application of Kentucky Utilities Company for an Adjustment of its Electric Rates, Terms and Conditions
Case No. 2003-00434

Dear Ms. O'Donnell:

Enclosed please accept for filing two originals and five (5) copies each of Louisville Gas and Electric Company's and Kentucky Utilities Company's Motion for Informal Conference in the above-referenced matters. Please confirm your receipt of these filings by placing the stamp of your Office with the date received on the enclosed additional copy and return them to me in the enclosed self-addressed stamped envelope.

Should you have any questions or need any additional information, please contact me at your convenience.

Very truly yours,

Kendrick R. Riggs

KRR/ec
Enclosures
cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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AUG 16 2004

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND)
ELECTRIC COMPANY FOR AN ADJUSTMENT) CASE NO. 2003-00433
OF THE GAS AND ELECTRIC RATES,)
TERMS AND CONDITIONS)

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)
COMPANY FOR AN ADJUSTMENT) CASE NO. 2003-00434
OF THE ELECTRIC RATES, TERMS AND)
CONDITIONS)

MOTION FOR INFORMAL CONFERENCE

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, "the Companies") move the Kentucky Public Service Commission ("Commission") to schedule an informal conference in the Commission's Offices on August 25, 26 or 27, 2004 for the purposes of discussing the Companies' proposed environmental surcharge factors for the expense month of July 2004 and billing month of September 2004. As grounds for this Motion, the Companies state as follows:

1. The proposed environmental surcharge billing factors will be filed with the Commission on August 20, 2004 for purposes of billing for service rendered on and after September 1, 2004 through September 30, 2004. The proposed environmental surcharge billing factors will be calculated in accordance with Section 3.4 of the Partial Settlement Agreement, Stipulation and Recommendation and Exhibit 3 thereto, approved by the Commission in its Orders of June 30, 2004. A copy of the monthly environmental surcharge filings will be served on all parties in the above-captioned cases on August 20, 2004.

2. The Base Period Jurisdictional Environmental Surcharge Factor (“BESF”) will be recalculated to remove the effects of KU’s 1994 Environmental Surcharge Compliance Plan (“the 1994 Plan”) and LG&E’s 1995 Environmental Surcharge Compliance Plan (“the 1995 Plan”) in accordance with Section 3.4, Exhibit 3, Page 1 of 2, of the Partial Settlement Agreement, Stipulation and Recommendation. KU’s current BESF is based on retail revenues for the twelve months ending September 30, 2003. LG&E’s current BESF is based on retail revenues for the twelve months ending February 28, 2003. In the May 4, 2004 Order in Case No. 2003-00068, the Commission stated at page 5 that “[t]he jurisdictional revenues used in the BESF calculation should reflect the revenues for the most recent 12-month period prior to the roll-in.” Exhibit A attached to this motion shows the proposed calculation of the BESF based on the 12 months ending June 30, 2004 and reflecting the incorporation of the 1994 Plan and 1995 Plan into base electric rates.

3. In accordance with Section 3.4, Exhibit 3, of the Partial Settlement Agreement, Stipulation and Recommendation, KU’s ES Form 2.31, “Inventory of Emission Allowances - Current Vintage Year,” will no longer be included with the monthly environmental surcharge filings. The costs and allowance expense associated with the sulfur dioxide (“SO₂”) emission allowances from the Owensboro Municipal Utilities will be included as a component of the environmental surcharge costs recovered as part of KU’s Post-1994 Plan. The Companies recommend modifying the current format of ES Form 2.30 to include monthly emission allowance expense as well as beginning and ending allowance inventory balance. Additionally, because KU’s accounting for allowances does not segregate allowance quantity or cost by source, KU recommends that ES Form 2.30 be further modified to include a baseline allowance inventory amount equal to the allowance inventory balance at September 30, 2003 and a baseline

allowance expense amount equal to the allowance expense for the 12-month period ending September 30, 2003. KU will submit for recovery through its environmental surcharge the difference between the current month allowance inventory and the baseline allowance inventory, and the difference between the current month allowance expense and 1/12th of the baseline allowance expense. Exhibit B attached to this Motion shows E.S. Form 2.30 "Inventory of Emission Allowances for the Expense Month of July 2004" and E.S. Form 2.00, revised to reflect the resulting proposed reporting format.

4. Section 3.1 of the Partial Settlement Agreement, Stipulation and Recommendation approved by the Commission's Orders of June 30, 2004 provide the Companies may use an 11% return on common equity for purposes of calculating their environmental surcharges until directed by the Commission that a different rate of return should be utilized. The monthly ECR filing forms do not include a format for calculating the allowed rate of return shown on ESM Form 1.10. The Companies recommend that with the July 2004 expense month environmental surcharge filing, LG&E's and KU's rate of return be restated to reflect an 11% return on common equity. In addition, the Companies propose to use their adjusted capital structures and cost of debt as determined in the Commission's June 30, 2004 Orders. Exhibit C attached to this motion shows the calculation of LG&E's and KU's weighted cost of capital reflecting the Commission's June 30, 2004 Orders.

5. ES Form 2.00 includes a determination of the current month over- or under-collection of environmental surcharge revenues based on the environmental revenue requirement established in the second preceding expense month filing. The determination of the over- or under- collection amount includes an estimate of environmental surcharge revenues collected through base rates using the percent by which each Company increased its base rates to

implement the “roll-ins” approved in each company’s respective environmental surcharge review cases. Effective with the July 2004 expense month, the 1994 Plan and 1995 Plan will no longer be a component of the monthly environmental surcharge revenue requirement. The portion of base rate revenues associated with the environmental cost recovery incorporation into base rates has decreased because of the change in base rates that took effect on July 1, 2004 and the elimination of the Companies’ 1994 and 1995 Plans. For this reason and for the sole purpose of limiting the amount of any over- or under- collection of environmental surcharge revenues beginning with the billing month of September 2004, the Companies recommend that effective with the September 2004 environmental surcharge monthly filing, the estimate of environmental revenues collected through base rates be equal to the recalculated BESF to more closely reflect the actual environmental costs and expenses incorporated to base rates.

WHEREFORE, for the reasons stated above, Louisville Gas and Electric Company and Kentucky Utilities Company request the Commission schedule an informal technical conference on the dates requested for the purposes of reviewing the calculation of and the forms associated with the September 2004 environmental surcharge billing factors.

Dated: August 16, 2004

Respectfully submitted,



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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Motion was served on the following persons on the 16th day of August 2004, United States mail, postage prepaid:

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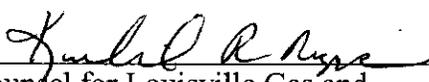

Counsel for Louisville Gas and
Electric Company and
Kentucky Utilities Company

EXHIBIT A

Determination of Base Environmental Surcharge Factor (BESF)

Base Revenues, 12 Months ending June 30, 2004

	KU	LGE
Jul-2003	59,153,805	65,013,920
Aug-2003	58,778,153	63,991,485
Sep-2003	59,589,990	63,228,069
Oct-2003	49,556,837	40,775,968
Nov-2003	48,657,182	39,803,712
Dec-2003	59,594,651	43,623,164
Jan-2004	66,699,661	46,407,043
Feb-2004	64,592,600	46,574,041
Mar-2004	56,670,629	42,528,552
Apr-2004	54,938,092	40,957,369
May-2004	52,590,154	45,305,246
Jun-2004	58,498,685	63,268,821
Total	\$ 692,100,989	\$ 603,432,140
Post-1994 Plan Rolled in, Case No. 2003-068	2,105,962	
Post-1995 Plan Rolled in, Case No. 2003-236		14,343,662
Revised BESF, post-1994/post-1995 Plans	0.30%	2.38%

EXHIBIT B

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Inventory of Emission Allowances**

For the Expense Month of July 2004

Vintage Year	Prior Month Allowances	Number of Allowances	Allowance Inventory Included in Base Rates	Prior Month Inventory Balance	Current Month Inventory Balance	Comments and Explanations
Current Year	173,670	162,535	\$ 69,415	\$ 6,337,287	\$ 5,930,971	
2005		83,343				
2006		83,343				
2007		83,343				
2008		83,343				
2009		83,343				
2010		77,535				
2011		77,535				
2012		77,535				
2013		77,535				
2014		77,535				
2015		77,535				
2016		77,535				
2017		77,535				
2018		77,535				
2019		77,535				
2020		77,535				
2021		77,535				
2022		77,535				
2023		77,535				
2024 - 2033		775,350				

In the "Comments and Explanation" Column, describe any allowance inventory adjustment other than the assignment of allowances by EPA. Inventory adjustments include, but are not limited to, purchases, allowances acquired as part of other purchases, and the sale of allowances.

Determination of Monthly Usage -- Current Year Vintage

Monthly Allowance Expense (11,315 allowances at \$36.49 per allowance)	\$ 406,316.15
12 Months Ended September 30, 2003 allowance expense in base rates	\$ 58,345.76
One-twelfth (1/12) of 12 Months Ended September 30, 2003 allowance expense i	\$ 4,862.15
Monthly Expense recoverable through the environmental surcharge	\$ 401,454.00

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Revenue Requirements of Environmental Compliance Costs
For the Expense Month of July 2004
Determination of Environmental Compliance Rate Base

	1994 Plan	Post-1994 Plan
Eligible Pollution Control Plant	\$0	\$9,775,541
Eligible Pollution CWIP Excluding AFUDC	\$0	\$207,947,562
Subtotal	\$0	\$217,723,103
Additions:		
Inventory - Spare Parts	\$0	\$0
Inventory - Limestone	\$0	\$0
Inventory - Emission Allowances per Form 2.30	\$0	\$5,930,971
less Allowance Inventory baseline	\$0	\$69,415
Net Emission Allowance Inventory	\$0	\$5,861,556
Cash Working Capital Allowance	\$0	\$0
Subtotal	\$0	\$5,861,556
Deductions:		
Accumulated Depreciation on Eligible Pollution Control Plant	\$0	\$470,064
Pollution Control Deferred Income Taxes	\$0	\$492,857
Pollution Control Deferred Investment Tax Credit	\$0	\$0
Subtotal	\$0	\$962,921
Environmental Compliance Rate Base	\$0	\$222,621,738

Determination of Pollution Control Operating Expenses

	1994 Plan	Post-1994 Plan
Monthly Operations & Maintenance Expense (Incremental for 1994)	\$0	\$0
Monthly Depreciation & Amortization Expense	\$0	\$16,203
Monthly Taxes Other Than Income Taxes	\$0	\$22,494
Monthly Insurance Expense	\$0	\$0
Monthly Emission Allowance Expense excluding amount recovered through base rates	\$0	\$ 401,454
Monthly Surcharge Consultant Fee	\$0	\$0
Total Pollution Control Operating Expense	\$0	\$38,697

Gross Proceeds From By-Product and Allowance Sales (1994 Plan Only)

Allocated Allowances from EPA	Allowances from Over-Control	Allowances from Purchases	Total Proceeds from Allowance Sales	Proceeds from By-Products Sales
\$0	\$0	\$0	\$0	\$0

True-up Adjustment: Over/Under Recovery of Monthly Surcharge Due to Timing Differences

MESF for May Expense Month	2.42%
Net Jurisdictional E(m) for May Expense Month	2,916,134
Environmental Surcharge Revenue, current month (from Form 3.00)	1,609,078
Environmental Surcharge Revenue recovered through base rates (Base Revenues, Form 3.0 * 2.685%)	1,570,714
Over/(Under) Recovery due to Timing Differences (D - C)	263,658
Over-recoveries will be deducted from the Jurisdictional E(m); under-recoveries will be added to the Jurisdictional E(m)	

EXHIBIT C

Louisville Gas and Electric Company
 Weighted Cost of Capital
 Per June 30, 2004 Final Order, Case No. 2003-433

1	2	3	4
	Percent of Total	Annual Cost Rate	Weighted Cost of Capital
1 Long-Term Debt	42.58%	3.57%	1.52%
2 Short-Term Debt	5.17%	1.54%	0.08%
3 Preferred Stock	3.65%	2.59%	0.09%
4 Common Equity	48.60%	11.00%	5.35%
5 Total	<u>100.00%</u>		<u>7.04%</u>
Gross-up for taxes $(ROR + (ROR - DR) \times (TR / (1 - TR)))$:			10.66%

See Final Order, pg 59 for approved Capital Structure, pg 61 for Cost of Debt and Preferred Stock and pg 8 for Return on Common Equity.

Kentucky Utilities
 Weighted Cost of Capital
 Per June 30, 2004 Final Order, Case No. 2003-434

1	2	3	4
	Percent of Total	Annual Cost Rate	Weighted Cost of Capital
Long-Term Debt	40.74%	3.35%	1.36%
Short-Term Debt	3.02%	1.04%	0.03%
Preferred Stock	2.25%	5.68%	0.13%
Common Equity	53.99%	11.00%	5.94%
Total	<u>100.00%</u>		<u>7.46%</u>
Gross-up for taxes $(ROR + (ROR - DR) \times (TR / (1 - TR)))$:			11.48%

See Final Order, pg 51 for approved Capital Structure, pg 52 for Cost of Debt and Preferred Stock and pg 7 for Return on Common Equity.